



TO: MEMBERS OF THE FACILITY ASSOCIATION

ATTENTION: CHIEF EXECUTIVE OFFICER

BULLETIN NO.: F18 – 078

DATE: OCTOBER 30, 2018

SUBJECT: FARM – AUGUST 2018 PARTICIPATION REPORT

A copy of this bulletin should be provided to your Chief Financial Officer and Appointed Actuary.

Please be advised that the August 2018 FARM Participation Report is now available on the Facility Association Portal at <https://portal.facilityassociation.com>.

New This Month

Valuation

An actuarial valuation as at June 30, 2018 has been completed since last month’s Participation Report for the FARM private passenger and non-private passenger business segments for all jurisdictions and the results of that valuation have been incorporated into this month’s Participation Report. The valuation was completed by the Facility Association’s internal staff in conjunction with, and reviewed and approved by, the Appointed Actuary.

The implementation resulted in an estimated overall **\$3.8 million favourable** impact on the month’s net result from operations, subtracting an estimated 2.9 points from the year-to-date Combined Operating Ratio (ending at 81.6%). The impact on the month’s results is summarized in the tables immediately below¹.

Grand Total	unfav / (fav)						ytd EP 133,246 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ultimates & payout patterns		dsct rate	margins		TOTAL	ultimates & payout patterns		dsct rate	margins		TOTAL
nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(4,414)	1,495	(2,919)	483	(1,800)	(4,236)	(3.3%)	1.1%	(2.2%)	0.4%	(1.4%)	(3.2%)
CAY	127	20	147	126	-	273	0.1%	-	0.1%	0.1%	-	0.2%
Prem Def	161	(65)	96	21	-	117	0.1%	-	0.1%	-	-	0.1%
TOTAL	(4,126)	1,450	(2,676)	630	(1,800)	(3,846)	(3.1%)	1.1%	(2.0%)	0.5%	(1.4%)	(2.9%)

Please see “Effect of Quarterly Valuation” on page 5 for additional detail.

¹In the tables, “ults & payout patterns” refers to the impacts associated with changes in selected ultimates and updated cashflows of claims payments; “dsct rate” refers to the impact of changes in the selected discount rate applied to projected cashflows; and “apv adj.” refers to “actuarial present value adjustments”.

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Summary of Financial Results

The calendar year-to-date Operating Result is \$24.8 million and the incurred loss ratio to the end of 8 months is 56.6%, as summarized in the table immediately below.

Amounts in \$000s	August 2018	August 2017	Year to date Aug 2018	Year to Date Aug 2017
Premium Written	23,645	17,099	166,445	127,502
Premium Earned	19,596	15,446	133,246	114,867
Incurred Losses	9,618	4,438	75,390	67,651
Underwriting & Admin Expense	4,894	3,978	33,077	28,574
Net Result from Operations	5,084	7,030	24,779	18,642
<i>Ratios:</i>				
Loss ratio - Prior Accident Years	(23.6%)	(49.4%)	(15.6%)	(15.2%)
- Current Accident Year	72.7%	78.2%	72.2%	74.1%
<i>Total</i>	49.1%	28.8%	56.6%	58.9%
<i>Underwriting & Admin Expense</i>	25.3%	25.9%	25.0%	24.9%
<i>Combined Operating Ratio</i>	74.4%	54.7%	81.6%	83.8%

rounding differences may occur

For details on the financial results, please refer to Exhibit 1 “Summary of Operations for Calendar Year 2018 - All jurisdictions by month”. A comparable summary by jurisdiction is included in Exhibit 2. Detailed exhibits by jurisdiction are included in a separate folder on our website called [“Summary of Operations”](#).

Updated Projection to Year-end 2018

The projected calendar year Net Result from Operations to December 2018 is \$33.8 million and the estimated combined operating ratio to December 2018 is 84.2% as indicated in the table at the top of the next page.

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FARM 2018 Year-end Projection	Current	Prior Mth	Change	Final 2018
Amounts in \$000s	(Aug 2018)	(Jul 2018)		Outlook*
Premium Written	231,081	226,906	4,175	182,582
Premium Earned	210,661	208,496	2,165	181,347
Incurred Losses	128,774	131,430	(2,655)	129,462
Underwriting & Admin Expense	48,113	47,584	529	41,471
Net Result from Operations	33,774	29,483	4,291	10,414
Ratios:				
Loss ratio - Prior Accident Years	(10.6%)	(8.7%)	(1.9%)	(2.9%)
- Current Accident Year	71.7%	71.7%	0.0%	74.2%
<i>Total</i>	61.1%	63.0%	(1.9%)	71.4%
Underwriting & Admin Expense	23.1%	23.1%	0.0%	23.0%
Combined Operating Ratio	84.2%	86.1%	(1.9%)	94.4%

rounding differences may occur

*as posted to FA's website Nov. 10, 2017

This updated projection to the end of the year has improved by \$4.3 million from the projection provided last month (\$29.5 million and 86.1%), mainly due to the impact of the valuation as at June 30, 2018, as summarized in the table below (see more information under “Effect of Quarterly Valuation” on page 5). Remaining differences were driven by changes in projected premium volumes, and the associated impacts on claims and expense projections.

Grand Total	unfav / (fav) projected for full year					year EP 210,661 (current projection)						
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % full year EP from changes in:					
	ultimates & payout patterns		dsct rate		margins		ultimates & payout patterns		dsct rate		margins	
nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(4,414)	1,352	(3,062)	444	(1,641)	(4,259)	(2.1%)	0.6%	(1.5%)	0.2%	(0.8%)	(2.0%)
CAY	85	(70)	15	182	-	197	-	-	-	0.1%	-	0.1%
Prem Def	72	(73)	(1)	20	-	19	-	-	-	-	-	-
TOTAL	(4,257)	1,209	(3,048)	646	(1,641)	(4,043)	(2.0%)	0.6%	(1.4%)	0.3%	(0.8%)	(1.9%)

The updated year-end projections are shown by jurisdiction against the November 10, 2017 Outlook in the table at the top of the next page, with the estimated impact of implementing the *current* valuation in the two far right columns. In particular, with *four* valuations (2017 Q3 & Q4, 2018 Q1 & Q2) and other changes since August 2017 (the actuals used in the Outlook), **the projected \$10.4 million operating result has been increased to \$33.8 million.**

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\$000s	Outlook Posted November 10, 2017			Updated Year-end Projection			Operating Result Change due to Valuation	
	Earned Premium	Operating Result	COR	Earned Premium	Operating Result	COR	Month of August	Year-end 2018
Ontario	44,378	4,583	89.8%	64,879	21,273	67.5%	3,610	4,028
Alberta	55,194	6,965	87.5%	63,575	11,626	81.9%	(261)	(282)
Newfoundland & Labrador	30,025	(3,626)	112.2%	28,662	3,405	88.3%	468	594
New Brunswick	21,336	1,212	94.5%	21,662	(3,548)	116.5%	(1,534)	(1,902)
Nova Scotia	18,432	(722)	104.0%	20,213	(1,066)	105.4%	(272)	(314)
Prince Edward Island	4,470	582	87.0%	4,432	(977)	122.3%	413	432
Yukon	1,884	187	90.3%	1,843	613	67.1%	255	239
Northwest Territories	4,453	910	79.6%	4,419	1,822	59.0%	1,018	1,025
Nunavut	1,175	324	72.6%	975	628	36.0%	149	140
TOTAL	181,347	10,414	94.4%	210,661	33,774	84.2%	3,846	3,960

In total, the operating result projection to year-end has increased by \$23.4 million from the Outlook posted November 10, 2017 (to \$33.8 million as shown above). This amount is \$4.0 million higher than it would have been, if not for the implementation of the June 30, 2018 valuation. (The changes before the impact of the June 30, 2018 valuation are attributable to mix of business and other projection assumptions outside of the valuation process, as well as the previous valuations implemented since the valuation used for the Outlook.)

One important change relative to the 2018 Final Outlook has been the increase in the discount rate (the interest rate margin for adverse deviation remained consistent at 25 basis points). Had the 2018 Final Outlook discount rate of 1.27%² still been applicable (rather than the 1.88% applied with this valuation), the operating result would have been *lower* by \$3.1 million (using the current interest rate sensitivity table). That is, the projected Operating Result would have been approximately \$30.7 million (COR of 85.4%) had the discount rate and associated margin remained at the 2018 Final Outlook level.

Current Month Results

The Net Results from Operations in the month of August 2018 was \$5.1 million, down \$1.9 million from the same month last year. This deterioration is composed of an approximately \$3.8 million deterioration stemming from the overall increase in the combined ratio (from 54.7% to 74.4% applied to \$19.6 million in earned premium), offset by a \$1.9 million favourable impact associated with the \$4.2 million increase in earned premium (at a combined ratio of 54.7%).

This month's results moved the year-to-date combined operating ratio from 82.9% at the end of 7 months to 81.6% at the end of 8 months. The 1.3 percentage point decrease is composed of a 1.4 percentage point decrease in the Prior Accident Years loss ratio, offset by a 0.1 percentage point increase in the Current Accident Year loss ratio.

Variances from Projections

The table at the top of the next page provides a summary of key components of the operating results as

²The 2018 Outlook was based on the June 30, 2017 valuation and the Bank of Canada yield curves at June 30, 2017. Readers can use the interest rate sensitivity tables in Exhibit F of the monthly operational Actuarial Highlights to test for impact of alternate discount rates. For example, page 85 of the August 2018 FARM Actuarial Highlights Exhibit F (page 10 of 10), indicating a 1.27% discount rate would increase indemnity claims liabilities by an estimated \$3.1 million using simple linear interpolation between the estimated \$4.0 million impact of a 1.38% discount rate and the \$0.0 million impact of a 1.88% discount rate shown in the table.

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compared to the estimates projected last month.

August 2018	Actual	Projection	Difference	Difference %
Premium Written	23,645	19,470	4,175	21.4%
Premium Earned	19,596	18,174	1,422	7.8%
Reported Losses				
Paid Losses	10,058	9,493	565	6.0%
Change in Outstanding Losses	143	1,103	(960)	(87.0%)
Total Reported Losses	10,201	10,596	(395)	(3.7%)
Change in IBNR*	(1,128)	2,462	(3,590)	
Change in Premium Deficiency (DPAC)*	(217)	(167)	(50)	
Change in Retro Claims Expense*	545	(401)	946	

(Amounts in \$000's)

rounding differences may occur

*Detailed information is included in [FARM August 2018 Participation Report - Actuarial Highlights](#).

Each month, management reviews the variance between reported premium activity and claims activity (actual reported claims payments and changes in case reserves) and the associated actuarial projections. The projection process involves many assumptions including claims reporting patterns. Actual reporting patterns vary from month-to-month, sometimes considerably. Although variances from our projections are expected, management investigates variances beyond set thresholds and responds as appropriate.

For the month of August 2018, reported indemnity amounts were \$0.3 million lower than projected (*allowed claims expenses are included in table immediately above as part of reported losses, explaining why the variance in Total Reported Losses in the table shows \$0.4 million*). The Current Accident Year had a \$0.8 million unfavourable variance in reported indemnity, while the Prior Accident Years had a favourable variance of \$1.1 million. No single Prior Accident Year had a reported indemnity variance in excess of \$1.0 million.

The variances for claims activity that were beyond the set thresholds at the jurisdiction, business segment level, and accident year group (i.e. Prior Accident Years vs. Current Accident Year) were investigated by Management. Management is satisfied that the variances are appropriately accounted for in our current booking process.

Effect of Quarterly Valuation

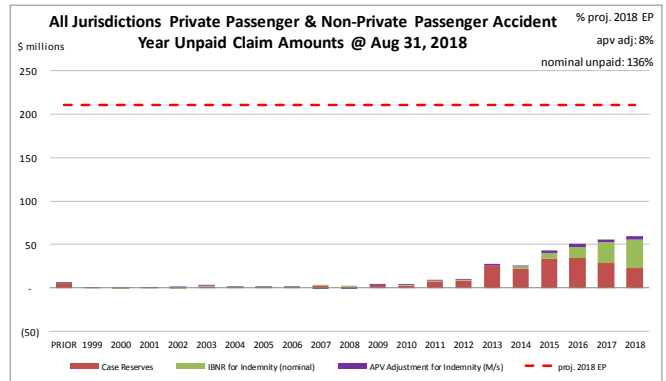
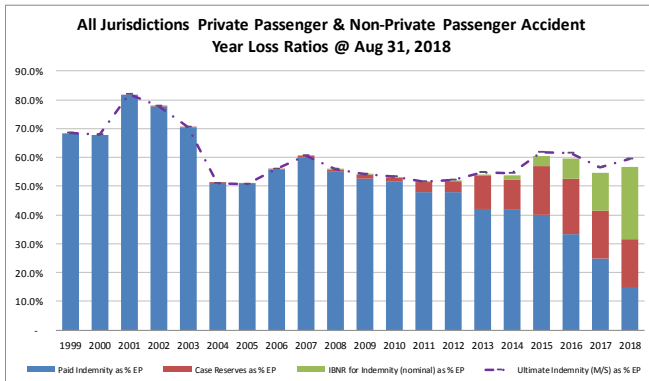
The August 2018 Participation Report reflects the results of an updated valuation as at June 30, 2018, with the associated impacts in relation to the results for August 2018 summarized in the table at the top of the next page.

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Grand Total

	unfav / (fav)						mth EP 19,596 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % mth EP from changes in:					
	ultimates & payout patterns			dsct rate	margins		ultimates & payout patterns			dsct rate	margins	
	nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(4,414)	1,495	(2,919)	483	(1,800)	(4,236)	(22.5%)	7.6%	(14.9%)	2.5%	(9.2%)	(21.6%)
CAY	127	20	147	126	-	273	0.6%	0.1%	0.8%	0.6%	-	1.4%
Prem Def	161	(65)	96	21	-	117	0.8%	(0.3%)	0.5%	0.1%	-	0.6%
TOTAL	(4,126)	1,450	(2,676)	630	(1,800)	(3,846)	(21.1%)	7.4%	(13.7%)	3.2%	(9.2%)	(19.6%)

The charts immediately below summarize the current view of the historical loss ratios (indemnity and allowed claims adjustment expenses on a nominal basis) and the associated claims liabilities.



The valuation included all jurisdictions and business segments and resulted in updated policy liability cash flow estimates for all jurisdictions that, when applied to the updated risk free yield curve, resulted in a decrease in the selected discount rate from 1.95% to 1.88%. The investment return margin for adverse deviation was left unchanged at 25 basis points, but the selected claims development margins³ were updated (as per usual practice, claims development margins are reviewed and updated annually with the June 30 valuation).

The **valuation summary** (in relation to **indemnity only**) is provided in the table at the top of the next page. (Please note that in reference to columns [4] to [9] in that table, the estimated impacts are in relation to a full year estimated earned premium, and are not “year-to-date”.)

³Claims development margins are selected by jurisdiction, business segment, coverage, and accident half-year.

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June 30, 2018 Valuation Summary (Indemnity Only)

Valuation Summary (Nominal Basis)

unfavourable / (favourable)

Jurisdiction	2017 & Prior Beginning Indemnity Unpaid (000s)	2017 & Prior Accident Year Indemnity Change (000s)	% of Beginning Unpaid	2018 Indemnity Loss Ratio	Change from Prior Valuation	Change against 2018 Earned Prem (000s)	2019 Indemnity Loss Ratio	Change from Prior Valuation	Change against 2019 Proj Earned Prem (000s)
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
Ontario	83,793	(2,960)	(3.5%)	48.4%	(1.3%)	(795)	50.6%	(0.9%)	(717)
PPV	34,903	(1,111)	(3.2%)	52.6%	0.6%	97	53.6%	(1.0%)	(192)
Non-PPV	48,890	(1,849)	(3.8%)	46.9%	(1.9%)	(891)	49.6%	(0.9%)	(525)
Alberta	65,637	(371)	(0.6%)	54.0%	0.1%	52	50.9%	(2.2%)	(1,472)
PPV	13,547	(913)	(6.7%)	57.1%	0.7%	52	50.0%	(4.0%)	(310)
Non-PPV	52,090	542	1.0%	53.6%	0.0%	-	51.0%	(2.0%)	(1,162)
Newfoundland & Labrador	44,492	(913)	(2.1%)	69.8%	(1.4%)	(411)	69.1%	(1.3%)	(377)
PPV	30,971	(324)	(1.0%)	70.7%	(0.6%)	(126)	71.0%	(1.0%)	(211)
Non-PPV	13,521	(589)	(4.4%)	67.4%	(3.6%)	(285)	64.0%	(2.0%)	(166)
New Brunswick	31,908	421	1.3%	62.5%	4.2%	899	58.2%	2.4%	533
PPV	20,133	756	3.8%	66.1%	4.4%	553	62.0%	4.5%	571
Non-PPV	11,775	(335)	(2.8%)	57.4%	3.9%	345	53.1%	(0.4%)	(38)
Nova Scotia	22,197	(79)	(0.4%)	64.4%	1.4%	266	65.8%	0.6%	125
PPV	9,020	179	2.0%	73.7%	4.0%	344	74.6%	2.0%	183
Non-PPV	13,177	(258)	(2.0%)	57.1%	(0.7%)	(78)	59.0%	(0.5%)	(58)
Prince Edward Island	6,828	(292)	(4.3%)	70.9%	(0.6%)	(27)	50.3%	2.4%	108
PPV	3,625	(233)	(6.4%)	44.3%	(0.1%)	(3)	45.0%	0.5%	13
Non-PPV	3,203	(59)	(1.8%)	106.7%	(1.3%)	(24)	57.5%	5.0%	95
Yukon Territory	2,839	(187)	(6.6%)	53.6%	1.3%	24	51.1%	(2.3%)	(44)
PPV	1,602	4	0.2%	57.2%	(2.7%)	(11)	57.1%	(5.4%)	(22)
Non-PPV	1,237	(191)	(15.4%)	52.6%	2.4%	35	49.5%	(1.5%)	(22)
Northwest Territories	4,614	(829)	(18.0%)	46.7%	(0.5%)	(22)	43.8%	(1.8%)	(80)
PPV	1,907	(47)	(2.5%)	48.0%	(0.9%)	(27)	46.0%	(1.0%)	(30)
Non-PPV	2,707	(782)	(28.9%)	43.7%	0.4%	5	39.0%	(3.5%)	(49)
Nunavut	974	(120)	(12.3%)	36.7%	(0.1%)	(1)	35.8%	(2.5%)	(24)
PPV	393	(48)	(12.2%)	28.8%	1.5%	3	27.1%	(0.4%)	(1)
Non-PPV	581	(72)	(12.4%)	39.0%	(0.6%)	(5)	38.0%	(3.0%)	(24)
Total	263,282	(5,330)	(2.0%)	56.5%	0.0%	(15)	55.0%	(0.9%)	(1,948)

There are differences between the changes in valuation estimates (summarized above), and the impact of implementing the valuation into the operating results (summarized on the next page). For example, differences will emerge due to the differences between data available at June 30, 2018 (used for the valuation) and available for implementation (August 31, 2018).

Finally, column [6] of the valuation summary table above estimates the impact of the change in selected *current* accident year indemnity loss ratio against projected full year 2018 earned premium, whereas the *current* accident year row, second row of column [1] in the implementation impact table at the top of the next page applies the change to 2018 year-to-date earned premium at August 31, 2018.

With this background, the overall **impact of implementing the valuation** on the results of the Month of August 2018 is estimated as **favourable by \$3.8 million**, as summarized in the table at the top of the next page. In that table, column [1] shows indemnity only, and is therefore comparable to the valuation summary table above (column [2] in the valuation summary table is comparable to the first row of column [1] in the table at the top of the next page).

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Implementation Impact - relative to projection for month of August 2018 (negative values are favourable)

\$000s	indemnity [1]	retroactive claims fee [2]	allowed claims expenses [3]	nominal total [4]	actuarial present value [5]	Grand Total [6]
prior accident years (1994-2017)	(4,946)	(221)	753	(4,414)	178	(4,236)
current accident year claims incurred	30	32	65	127	146	273
premium deficiency / (DPAC)	161			161	(44)	117
TOTAL	(4,755)	(189)	818	(4,126)	280	(3,846)

An alternate summary of the valuation implementation impact is presented in the table immediately below, including the impact in relation to year-to-date earned premium. In this table, rows “PAYs” and “CAY” (for “Prior Accident Years” and “Current Accident Year” respectively), include the changes in indemnity, retroactive claims fee adjustment provision and the provision for allowed claims adjustment expenses.

Grand Total	unfav / (fav)						ytd EP 133,246 (actual)					
	IMPACT in \$000s from changes in:						IMPACT unfav / (fav) as % ytd EP from changes in:					
	ultimates & payout patterns		dsct rate	margins		TOTAL	ultimates & payout patterns		dsct rate	margins		TOTAL
nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	nominal	apv adj.	sub-tot	apv adj.	apv adj.	TOTAL	
[1]	[2]	[3]	[4]	[5]	[6]	[1]	[2]	[3]	[4]	[5]	[6]	
PAYs	(4,414)	1,495	(2,919)	483	(1,800)	(4,236)	(3.3%)	1.1%	(2.2%)	0.4%	(1.4%)	(3.2%)
CAY	127	20	147	126	-	273	0.1%	-	0.1%	0.1%	-	0.2%
Prem Def	161	(65)	96	21	-	117	0.1%	-	0.1%	-	-	0.1%
TOTAL	(4,126)	1,450	(2,676)	630	(1,800)	(3,846)	(3.1%)	1.1%	(2.0%)	0.5%	(1.4%)	(2.9%)

The overall impact *prior to* the 7 basis point decrease in the discount rate (to 1.88%) and changes to margins for adverse deviation was favourable by \$2.7 million (Total row, column [3] of left table above). This was partially offset by the \$0.6 million unfavourable impact of the discount rate change (Total row, column [4] of left table above). While there were no updates to the selected margins for investment income, changes to selected margins for adverse claims development deviation resulted in an additional \$1.8 million favourable impact (Total row, column [5] of left table above).

As shown in the table⁴ at the top of the next page, management has observed favourable *total* valuation impacts (column [5]) over the last 12 valuation implementations, with 3 valuation implementations being unfavourable over that 12-quarter period. It should be noted that the impacts in column [3] are largely outside of the control of FA (as being related to macroeconomic factors).

⁴The table summarizes the same information as provided in the columns [1], [2], [4], and [5] for the TOTAL row of the summary table on this page, but does so for the most recent 12 valuation implementations.

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FARM juris: ALL, as at: 2018 Q2		unfavourable / (favourable) Valuation Implementation Impact (\$000s)					\$000s		
Valuation	period implemented	updated LR & exp	APVs @ prior assumptions	updated dsct rate	updated margins	Total Impact	Booked Policy Liabilities	Total Impact as % Book Liabs	Nominal Impact as % Book Liabs
		[1]	[2]	[3]	[4]	[5] = sum([1] to [5])	[6]	[7] = [5] / [6]	[8] = [1] / [6]
2015 Q3	Oct 2015	(2,487)	(375)	2,201	-	(661)	496,058	(0.1%)	(0.5%)
2015 Q4	Mar 2016	(2,416)	(204)	586	-	(2,034)	467,105	(0.4%)	(0.5%)
2016 Q1	May 2016	4,360	331	677	-	5,368	479,244	1.1%	0.9%
2016 Q2	Aug 2016	(7,711)	(630)	638	(1,083)	(8,786)	473,885	(1.9%)	(1.6%)
2016 Q3	Oct 2016	8,589	7,156	865	-	16,610	487,528	3.4%	1.8%
2016 Q4	Mar 2017	(10,311)	(613)	(6,322)	-	(17,246)	439,627	(3.9%)	(2.3%)
2017 Q1	May 2017	10,636	1,177	1,138	-	12,951	456,566	2.8%	2.3%
2017 Q2	Aug 2017	(2,319)	(271)	(2,314)	(1,256)	(6,160)	457,027	(1.3%)	(0.5%)
2017 Q3	Oct 2017	(2,100)	(341)	(5,847)	-	(8,288)	450,704	(1.8%)	(0.5%)
2017 Q4	Mar 2018	(10,085)	(890)	153	-	(10,822)	419,870	(2.6%)	(2.4%)
2018 Q1	May 2018	(949)	(1,001)	(1,647)	-	(3,597)	429,713	(0.8%)	(0.2%)
2018 Q2	Aug 2018	(4,126)	1,450	630	(1,800)	(3,846)	451,385	(0.9%)	(0.9%)
12-qtrs	-	(18,919)	5,789	(9,242)	(4,139)	(26,511)			
% of total		71.4%	(21.8%)	34.9%	15.6%	100.0%			
Averages									
12-qtrs		(1,577)	482	(770)	(345)	(2,209)	459,059	(0.5%)	(0.3%)
2015 Q3 to 2016 Q4		(1,663)	944	(226)	(181)	(1,125)	473,908	(0.2%)	(0.4%)
2017 Q1 to 2018 Q2		(1,491)	21	(1,315)	(509)	(3,294)	444,211	(0.7%)	(0.3%)

The FA valuation approach is focused on providing (i) best estimates on a nominal basis (i.e. the longer term average of nominal changes in column [1] should be close-to-zero); (ii) the nominal changes of any one valuation in relation to policy liabilities⁵, should be “small” (less than 2.5%); and (iii) the valuation results should not indicate bias – that is, we generally anticipate approximately 1/3rd of nominal valuation impacts will be unfavourable, and 2/3rds will be favourable (due to the skewness of the development). On these 3 measures:

- (i) **Best estimate measurement:** This objective has not been met, as the 12-quarter nominal change in column [1] is \$18.9 million favourable. That said, the average favourable impact over the 12 quarters at \$1.6 million (nominal only) represents 0.4% of ending policy liabilities, which we would view as not significant. We do note that the latest 6 valuations have been on average slightly less favourable than the earlier 6 valuations. At this point, we view this as more process variance, but we do look for a result closer to \$0.
- (ii) **Nominal size measurement:** This objective has been met, as there were no individual valuations showing nominal changes in excess of 2.5% of ending policy liabilities per column [8] in the table above.
- (iii) **Bias evidence measurement:** This objective has been met, as 3 of 12 valuations show unfavourable changes (column [1] of the table above), in line with our expectation (4 of 12).

⁵We also consider changes in nominal estimates relative to beginning claims liabilities, with this metric also ideally being small, but in this case, less than 5.0%. Over time, our view of “small” for each of these metrics may change.

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In summary, while our best estimate measurement has not been met, our remaining two valuation measurements have been met. That said, we continue to look for ways to improve the overall accuracy of the valuation estimates.

Additional detail related to the valuation results and impact is available in the [FARM August 2018 Participation Report – Actuarial Highlights](#). The FARM Actuarial Quarterly Valuation Highlights as at June 30, 2018 are expected to be posted later in the fall.

The actuarial valuation will be updated next as at September 30, 2018 for all jurisdictions and business segments. The results are anticipated to be reflected in the October 2018 Participation Report.

Management Comments

As shown in the table below, the private passenger annualized vehicle counts decreased by 4.8% overall in August 2018 relative to August 2017. On a year-to-date basis, exposure counts are down by 1.6%, decreasing in all jurisdictions except Ontario and Nova Scotia.

FARM Private Passenger Written Car Years

# FARM Vehicles Written								
Jurisdiction	Month of August 2018				Calendar YTD as of August 2018			
	2018	2017	Chg	% Chg	2018	2017	Chg	% Chg
Ontario	300	247	53	21.6%	2,069	1,628	440	27.0%
Alberta	92	156	(64)	(41.1%)	1,066	1,081	(15)	(1.4%)
Newfoundland & Labrador	889	1,028	(139)	(13.5%)	6,937	7,455	(518)	(7.0%)
New Brunswick	530	535	(4)	(0.8%)	4,055	4,542	(486)	(10.7%)
Nova Scotia	445	369	76	20.7%	3,215	2,728	488	17.9%
Prince Edward Island	95	121	(26)	(21.5%)	813	895	(83)	(9.2%)
Yukon	12	23	(11)	(48.9%)	117	123	(7)	(5.5%)
Northwest Territories	195	194	1	0.5%	1,392	1,482	(90)	(6.1%)
Nunavut	6	20	(15)	(71.3%)	82	131	(49)	(37.2%)
All Jurisdictions	2,564	2,692	(129)	(4.8%)	19,746	20,066	(320)	(1.6%)

Rounding differences may occur

Should you require any further information, please call Norm Seeney, Vice President, Finance and Member Services at (416) 644-4914.

David J. Simpson, M.B.A., FCIP, C. Dir.
 President & CEO

Related link:

[FARM August 2018 Participation Report – Actuarial Highlights](#)

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS BY MONTH
Operating Results for the 8 months ended August 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 08/2018
(thousands of dollars)

	January	February	March	April	May	June	July	August	CY2018 YTD	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:											
PREMIUMS WRITTEN	\$14,288	\$14,220	\$15,096	\$18,290	\$27,753	\$27,385	\$25,768	\$23,645	\$166,445	\$231,082	\$184,248
CHANGE IN UNEARNED PREMIUMS	1,131	(123)	675	(2,949)	(10,948)	(10,008)	(6,928)	(4,049)	(33,199)	(20,418)	(7,762)
NET PREMIUMS EARNED	\$15,419	\$14,097	\$15,771	\$15,341	\$16,805	\$17,377	\$18,840	\$19,596	\$133,246	\$210,664	\$176,486
CLAIMS INCURRED											
PRIOR ACCIDENT YEARS											
UNDISCOUNTED	21	53	(9,199)	18	(1,457)	4	13	(4,415)	(14,962)	(14,957)	(6,309)
EFFECT OF DISCOUNTING	27	(762)	(1,214)	(289)	(2,830)	(350)	(220)	(216)	(5,854)	(7,380)	(20,772)
DISCOUNTED	48	(709)	(10,413)	(271)	(4,287)	(346)	(207)	(4,631)	(20,816)	(22,337)	(27,081)
CURRENT ACCIDENT YEAR											
UNDISCOUNTED	10,750	9,918	10,451	10,539	11,827	11,924	12,871	13,491	91,771	144,497	123,688
EFFECT OF DISCOUNTING	659	510	515	536	353	500	604	758	4,435	6,615	5,657
DISCOUNTED	11,409	10,428	10,966	11,075	12,180	12,424	13,475	14,249	96,206	151,112	129,345
CLAIMS INCURRED	\$11,457	\$9,719	\$553	\$10,804	\$7,893	\$12,078	\$13,268	\$9,618	\$75,390	\$128,775	\$102,264
UNDERWRITING EXPENSES											
OPERATING & SERVICE FEES	1,470	1,464	1,544	1,875	2,861	2,807	2,651	2,518	17,190	23,740	18,983
AGENTS COMMISSIONS	1,081	1,100	1,222	1,466	2,132	2,067	2,011	1,841	12,920	18,281	15,266
DRIVER RECORD ABSTRACTS	172	128	159	297	510	303	205	285	2,059	2,922	3,004
BAD DEBTS	(1)	(2)	1	(31)	(3)	(2)	(5)	2	(41)	(47)	(304)
PREMIUM DEFICIENCY/(DPAC)											
UNDISCOUNTED	106	31	(237)	(226)	(603)	(797)	(565)	(190)	(2,481)	(1,610)	(684)
EFFECT OF DISCOUNTING	(44)	(16)	11	18	(120)	59	29	(27)	(90)	(176)	398
DISCOUNTED	62	15	(226)	(208)	(723)	(738)	(536)	(217)	(2,571)	(1,786)	(286)
UNDERWRITING EXPENSES	\$2,784	\$2,705	\$2,700	\$3,399	\$4,777	\$4,437	\$4,326	\$4,429	\$29,557	\$43,110	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$1,178	\$1,673	\$12,518	\$1,138	\$4,135	\$862	\$1,246	\$5,549	\$28,299	\$38,779	\$37,559
ADMINISTRATIVE EXPENSES	448	435	505	408	501	486	445	529	3,757	5,466	5,096
PREMIUM FINANCE FEE	(10)	(9)	(8)	(10)	(9)	(8)	(10)	(9)	(73)	(60)	(108)
INVESTMENT INCOME	29	26	29	32	35	38	48	73	310	524	251
OPERATING RESULTS	\$749	\$1,255	\$12,034	\$752	\$3,660	\$406	\$839	\$5,084	\$24,779	\$33,777	\$32,606
RATIOS:											
Claims & Adj Expenses Incurred (Earned)											
Prior Accident Years	0.3%	-5.0%	-66.0%	-1.8%	-25.5%	-2.0%	-1.1%	-23.6%	-15.6%	-10.6%	-15.3%
Current Accident Year	74.0%	74.0%	69.5%	72.2%	72.5%	71.5%	71.5%	72.7%	72.2%	71.7%	73.3%
All Accident Years Combined	74.3%	69.0%	3.5%	70.4%	47.0%	69.5%	70.4%	49.1%	56.6%	61.1%	58.0%
Underwriting & Admin Exp.(Earned)	21.0%	22.3%	20.3%	24.8%	31.4%	28.3%	25.3%	25.3%	25.0%	23.1%	23.7%
COMBINED OPERATING RATIO	95.3%	91.3%	23.8%	95.2%	78.4%	97.8%	95.7%	74.4%	81.6%	84.2%	81.7%

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding Difference may apply

SUMMARY OF OPERATIONS - CALENDAR YEAR 2018
FACILITY ASSOCIATION RESIDUAL MARKET - ALL JURISDICTIONS
Operating Results for the 8 months ended August 31, 2018 (Discounted Basis)
Source: Monthly (Accident Year) Member Participation Report as at 08/2018
(thousands of dollars)

	Alberta	Ontario	NS	PEI	NB	NFLD & LAB	Yukon	NWT	Nunavut	Total	CY2018 12 Months Updated Projections	CY2017 12 Months Actual
UNDERWRITING REVENUE:												
PREMIUMS WRITTEN	\$50,905	\$56,712	\$15,667	\$3,066	\$15,526	\$19,422	\$1,511	\$3,047	\$589	\$166,445	\$231,082	\$184,248
CHANGE IN UNEARNED PREMIUMS	(10,738)	(17,693)	(2,604)	(125)	(1,353)	(339)	(301)	(120)	74	(33,199)	(\$20,418)	(\$7,762)
NET PREMIUMS EARNED	\$40,167	\$39,019	\$13,063	\$2,941	\$14,173	\$19,083	\$1,210	\$2,927	\$663	\$133,246	\$210,664	\$176,486
CLAIMS INCURRED												
PRIOR ACCIDENT YEARS												
UNDISCOUNTED	(2,794)	(10,571)	(201)	396	3,413	(3,582)	(383)	(913)	(327)	(14,962)	(\$14,957)	(\$6,309)
EFFECT OF DISCOUNTING	(1,096)	(2,731)	(272)	(127)	(266)	(1,078)	(65)	(185)	(34)	(5,854)	(\$7,380)	(\$20,772)
DISCOUNTED	(3,890)	(13,302)	(473)	269	3,147	(4,660)	(448)	(1,098)	(361)	(20,816)	(22,337)	(27,081)
CURRENT ACCIDENT YEAR												
UNDISCOUNTED	25,594	24,472	10,136	2,480	10,751	15,553	787	1,688	310	91,771	\$144,497	\$123,688
EFFECT OF DISCOUNTING	938	1,594	470	162	442	707	38	70	14	4,435	\$6,615	\$5,657
DISCOUNTED	26,532	26,066	10,606	2,642	11,193	16,260	825	1,758	324	96,206	151,112	129,345
CLAIMS INCURRED	\$22,642	\$12,764	\$10,133	\$2,911	\$14,340	\$11,600	\$377	\$660	(\$37)	\$75,390	\$128,775	\$102,264
UNDERWRITING EXPENSES												
OPERATING & SERVICE FEES	5,091	6,133	1,565	307	1,551	2,030	151	305	57	17,190	\$23,740	\$18,983
AGENTS COMMISSIONS	4,160	3,342	1,389	289	1,434	1,820	132	301	53	12,920	\$18,281	\$15,266
DRIVER RECORD ABSTRACTS	472	157	548	137	360	318	11	50	6	2,059	\$2,922	\$3,004
BAD DEBTS	(8)	17	(19)	(7)	0	(23)	(1)	0	0	(41)	(\$47)	(\$304)
PREMIUM DEFICIENCY/(DPAC)												
UNDISCOUNTED	(898)	(1,119)	(46)	93	(111)	(370)	(26)	(11)	7	(2,481)	(\$1,610)	(\$684)
EFFECT OF DISCOUNTING	0	0	155	68	0	(313)	0	0	0	(90)	(\$176)	\$398
DISCOUNTED	(898)	(1,119)	109	161	(111)	(683)	(26)	(11)	7	(2,571)	(1,786)	(286)
UNDERWRITING EXPENSES	\$8,817	\$8,530	\$3,592	\$887	\$3,234	\$3,462	\$267	\$645	\$123	\$29,557	\$43,110	\$36,663
NET UNDERWRITING GAIN (LOSS)	\$8,708	\$17,725	(\$662)	(\$857)	(\$3,401)	\$4,021	\$566	\$1,622	\$577	\$28,299	\$38,779	\$37,559
ADMINISTRATIVE EXPENSES	1,055	1,246	359	110	345	447	63	90	42	3,757	\$5,466	\$5,096
PREMIUM FINANCE FEE	(21)	(28)	(8)	0	(8)	(8)	0	0	0	(73)	(\$60)	(\$108)
INVESTMENT INCOME	80	112	25	8	33	45	1	6	0	310	\$524	\$251
OPERATING RESULTS	\$7,712	\$16,563	(\$1,004)	(\$959)	(\$3,721)	\$3,611	\$504	\$1,538	\$535	\$24,779	\$33,777	\$32,606
RATIOS:												
Claims & Adj Expenses Incurred (Earned)												
Prior Accident Years	-9.7%	-34.1%	-3.6%	9.1%	22.2%	-24.4%	-37.0%	-37.5%	-54.4%	-15.6%	-10.6%	-15.3%
Current Accident Year	66.1%	66.8%	81.2%	89.8%	79.0%	85.2%	68.2%	60.1%	48.9%	72.2%	71.7%	73.3%
All Accident Years Combined	56.4%	32.7%	77.6%	98.9%	101.2%	60.8%	31.2%	22.6%	-5.5%	56.6%	61.1%	58.0%
Underwriting & Admin Exp.(Earned)	24.6%	25.1%	30.2%	33.9%	25.3%	20.5%	27.3%	25.1%	24.9%	25.0%	23.1%	23.7%
COMBINED OPERATING RATIO	81.0%	57.8%	107.8%	132.8%	126.5%	81.3%	58.5%	47.7%	19.4%	81.6%	84.2%	81.7%

Note: Amounts shown above do not reflect costs incurred directly by member companies e.g. income and premium taxes, health levies, association dues, cost of capital as a result of their compulsory participation in Facility Association and investment income earned on Facility Association premium dollars invested directly by members.

Rounding Difference may apply